

Wildwood Water Service Company

ILLINOIS
COMMERCE COMMISSION
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CHIEF CLERK'S OFFICE

Direct Testimony of

Erin L. Nicholas

1 **Q. Please state your name, occupation and business address for the record.**

2 A. My name is Erin L. Nicholas. I am the Manager of Regulatory Accounting for
3 Utilities, Inc. and subsidiaries, including Wildwood Water Service Company
4 (WWSC). My business address in 2335 Sanders Road, Northbrook, Illinois.

5

6 **Q. Please state your professional and educational background and experience.**

7 A. I have been employed by Utilities, Inc. since 1996. Since that time I have been
8 involved in both the accounting and rate-making aspects of the utility business. I
9 have been responsible for rate filings in Florida, New Jersey, North Carolina,
10 Pennsylvania and Virginia.

11

12 I earned a Bachelor of Business Administration degree in accounting from the
13 University of Notre Dame in South Bend, Indiana. I am currently enrolled in the
14 Masters of Business Administration Program at Kellogg Graduate School of
15 Management at Northwestern University in Chicago, Illinois. I am a Certified

1 Public Accountant and I have attended the NARUC Utility Rate Seminar as well
2 as other related independently sponsored seminars.

3
4 **Q. Please explain your job responsibilities at Utilities, Inc.**

5 A. My responsibilities include: financial analysis of individual subsidiaries of
6 Utilities, Inc., preparation of applications for rate relief, facilitation of commission
7 audits, and the submission of financial testimony and schedules to support a
8 request for an increase in rates.

9
10 **Q. Please describe Utilities, Inc.**

11 A. Utilities, Inc. (UI), the parent company of Wildwood Water Service Company,
12 has been involved in the water and sewer industry for over 35 years. UI is a
13 privately held company that owns approximately 76 operating companies. These
14 facilities are spread throughout 16 states including: Illinois, Arizona, Florida,
15 Georgia, Indiana, Louisiana, Maryland, Mississippi, North Carolina, Nevada,
16 New Jersey, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia.

17
18 **Q. Please describe Wildwood Water Service Company**

19 A. Wildwood Water Service Company is a wholly owned subsidiary of Utilities, Inc.
20 Utilities, Inc. is in the process of incorporating WWSC under the laws of the State
21 of Illinois. Because this new subsidiary had not been formed at the time the
22 purchase agreement was signed, concurrent with the approval to purchase,
23 Utilities, Inc. requests permission to assign the rights under the agreement to this

1 new corporation. A copy of the certificate of incorporation will be submitted as a
2 late filed exhibit once it is obtained.

3
4 WWSC will provide water service to the 200 water customers in the Mulford
5 Wildwood in Winnebago County, Illinois. The system is situated adjacent to the
6 service territory of Great Northern Utilities, Inc. The water system is
7 approximately 42 years old. WWSC requests the Commission to grant to it a
8 Certificate of Public Convenience and Necessity to operate and maintain the water
9 system and to engage in the business of furnishing water public utility service in
10 the Wildwood Utility Company's service area. In addition, WWSC requests that
11 the current certificates held by Wildwood Utility Co. be canceled. WWSC further
12 requests that this area be defined in the Order entered in this proceeding and that
13 the Certificate of Public Convenience and Necessity be effective from and after the
14 closing date of the purchase transaction.

15
16 **Q. Will the proposed transfer adversely effect the customers?**

17 **A.** No. WWSC intends to continue Wildwood Utility Company's public utility
18 business in a professional manner. The business will be operated as a subsidiary
19 of Utilities, Inc. As such, the utility will be operated within the long-term goal of
20 providing high quality water service. To accomplish this, the facilities will be
21 maintained to a high standard, certified operators will be employed and necessary
22 capital expenditures will be made.

1 **Q. Is the proposed transfer in the public interest?**

2 A. Yes, this transfer is in the best interest of the using and consuming public.
3 Utilities, Inc. has over 35 years of experience in the utility business. Utilities, Inc.
4 was formed in 1965 with the objective of acquiring small water and sewer
5 companies. These companies are often troubled and undercapitalized. They are
6 primarily developer-owned with little experience in operating utilities. Utilities,
7 Inc. provides safe and reliable water and sewer service to approximately 235,000
8 customers in 16 states resulting in significant operational economies of scale.
9 WWSC's customers will benefit from these economies of scale and the level of
10 expertise gained by their affiliation with UI. While operating only water and
11 sewer systems, UI personnel have the ability to meet the challenges of the rapidly
12 changing utility industry. In addition, Utilities, Inc. has both the regulatory
13 experience and financial wherewithal to ensure consistent compliance with
14 environmental protection regulations. Utilities, Inc.'s experience in operating
15 water and sewer utilities will provide depth to WWSC on both a day to day basis
16 as well as during emergencies. For these reasons, the public interest would be best
17 served by the transfer of the water facilities to WWSC.

18

19 **Q. Does WWSC wish to enter into the service contract with Water Service**
20 **Corp.?**

21 A. Yes, it does. The Commission approved the existing contract for all of UI's
22 Illinois subsidiaries on March 14, 1979. This agreement was slightly amended and
23 again approved by the Commission in Docket No. 94-0157. The Order states that

1 Staff recommends that the service agreement method utilized to allocate costs be
2 reviewed for reasonableness and appropriateness in subsequent rate cases, and
3 that in all other respects, Staff supported Commission approval of the
4 amendment. Detail regarding the amended service agreement can be found in that
5 docket. Please see a copy of the WSC agreement attached as **ELN Exhibit 1**.

6
7 **Q. Please describe the relationship between Utilities, Inc. and Water Service**
8 **Corp.**

9 A. WSC is the affiliated service company that provides centralized billing,
10 accounting, data processing, engineering, management, and regulatory services for
11 the greater than 350 water and wastewater systems supported by the 76 operating
12 companies held by UI, including Wildwood Water Service Company

13
14 One of the primary benefits of the Water Service Corp. agreement will be
15 WWSC's access to a large pool of human resources from which to draw upon. As
16 indicated above, there are experts in various areas such as construction,
17 engineering, operations, accounting, regulation, data processing, customer service,
18 etc.

19
20 **Q. Does WSC charge a management fee or profit for these services?**

21 A. No, it does not.
22
23

1 **Q. How are costs assigned to the individual companies?**

2 A. Pursuant to the approved contract, wherever practical, the costs of these essential
3 services are typically assigned directly to the company that benefits from the
4 service provided. However, costs that cannot be identified to a specific company
5 are allocated to the operating companies primarily based on the number of
6 customers served. This methodology has been in use and accepted by each affected
7 regulatory jurisdiction for many years.

8
9 **Q. How will the WSC allocations change as a result of this acquisition?**

10 A. The addition of WWSC to the UI group of companies will result in a 0.113%
11 allocation to WWSC and a very insignificant decrease of customer allocation
12 percentages to all other utilities, less than a fraction of one percent. This is shown
13 on the attached **ELN Exhibit 2**, page 2 of 2.

14
15 **Q. Will the system be operated using existing personnel of Water Service Corp.?**

16 A. It will for a while. However, it is expected that Water Service Corp. will need to
17 hire a part-time operator to work between two and two and a half days per week
18 to assist mostly in handling UI's Rockford area systems; including WWSC, Great
19 Northern Utilities, Inc., Northern Hills Water and Sewer Company and Westlake
20 Utilities, Inc. The additional operator will not be hired until sometime after
21 transfer approval is granted for both Wildwood Water Service Company and
22 Westlake Utilities, Inc.

23

1 Currently Water Service Corp. employs approximately 11 full-time Illinois
2 operating personnel. This will provide depth to WWSC. Should an employee
3 become ill or leave the area on vacation, another employee can be brought in. In
4 addition, in emergencies additional staff will be made available.

5
6 **Q. With respect to savings or additional costs that will be realized due to the**
7 **merger, state whether the savings or costs will be passed to rate payers.**

8 A. The amount of any additional expense or savings is unknown since we are not
9 operating the system at this time. However, cost savings are expected to occur as
10 a result of WWSC's affiliation with UI. UI's group of companies maintains
11 economies of scale (as discussed above) and has national purchasing power on
12 expenditures such as insurance, vehicles and meters, which result in lower costs to
13 ratepayers. Furthermore, UI has access to capital for improvements and expansion
14 at reasonable rates. Any cost savings and/or additional prudent expenses brought
15 about by this merger will be passed on to the rate-payers.

16
17 **Q. With respect to the costs incurred to effect the merger, please quantify**
18 **them. Also please provide the accounting treatment and state whether**
19 **Utilities, Inc. plans to pass the cost to rate payers.**

20 A. The total costs expected to be incurred to complete the closing and approval
21 process of the Purchase Agreement between Wildwood Utility Company and
22 Wildwood Water Service Company is estimated at \$6,000. This amount includes
23 the cost associated with incorporating Wildwood Water Service Company as well as

1 a credit to Accumulated Provision for Amortization of Utility Plant Acquisition
2 Adjustments. This rate equals the depreciation rate.
3

4 **Q. Is WWSC proposing a rate change at this time?**

5 A. No, WWSC proposes to provide water service pursuant to the rates, rules,
6 regulations, and terms and conditions of service which have been approved by this
7 Commission and which are currently in effect in the service area, subject to any
8 changes hereafter approved by the Commission, and to continue all services
9 currently provided by Wildwood Utility Company without interruption or
10 change. The Company will file new tariff sheets under the name of Wildwood
11 Water Service Company.
12

13 **Q. Should the proposed transfer be approved by the Commission?**

14 A. Yes. The transfer is in the best interest of the customers as noted above.
15

16 **Q. Does this conclude your testimony?**

17 A. Yes, it does.